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TO RUEHC/SECSTATE WASHDC 4717
INFO RHMFISS/DEPT OF ENERGY WASHINGTON DC
RUCPDOC/DEPT OF COMMERCE WASHINGTON DC
RUEHGA/AMCONSUL CALGARY 0004
RUEHRB/AMEMBASSY RABAT 0871
RUEHEG/AMEMBASSY CAIRO 1456
RUEHTU/AMEMBASSY TUNIS 0807
RUEHAS/AMEMBASSY ALGIERS 0930
RUEHVT/AMEMBASSY VALLETTA 0414
RUEHTRO/AMEMBASSY TRIPOLI 5246

UNCLAS TRIPOLI 000306

SENSITIVE
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USDOC FOR ITA/MAC/ONE (NATHAN MASON), ADVOCACY CTR (REITZA), AND
CLDP (TEJTEL AND MCMANUS)
CASABLANCA FOR FCS (ORTIZ)
AMMAN FOR ESTH HUB (BHALLA)
CAIRO FOR FINANCIAL ATTACHE (SEVERENS)
LONDON AND PARIS FOR NEA WATCHER

E.O. 12958: N/A
TAGS: ECON EINV EPET EFIN ETRD ENRG CA LY
SUBJECT: NOC BLOCKS SALE OF CANADIAN OIL FIRM

¶1. (SBU) Summary. On April 12, the President of Canada's Verenex Energy, Jim McFarland, briefed the Ambassador on the difficulties he has encountered in attempting to sell his company to another foreign operator in Libya, the China National Petroleum Company (CNPC). The gist of the problem is that Libya's National Oil Corporation (NOC) has blocked the transaction -- on questionable legal grounds, according to McFarland -- leaving Verenex in a state of limbo. Meanwhile, the NOC has demanded what amounts to a pay-off in the event it permits the transaction to proceed. End of summary.

¶2. (U) Verenex, a relatively small-scale oil producer that was awarded an exploration block in the Ghadames area five years ago, is one of the few foreign companies that has made successful discoveries in Libya. Verenex's field has estimated reserves of 2.15 billion barrels and is expected to produce 50,000 barrels of oil per day and 50 million cubic feet of gas per day by early 2011.

¶3. (SBU) In September 2008, Verenex announced a corporate sale, opened confidential technical data of its Libyan assets to 22 companies previously approved by the NOC, and received bids for the sale. After five months, Verenex announced that it had entered into an agreement with the CNPC to acquire Verenex for approx. USD 400 million. The deal, however, was subject to NOC's approval.

¶4. (SBU) McFarland said that before signing the agreement with CNPC, Verenex was pressured by the NOC to pay the NOC a "bonus" equal to 10% of the value of the transaction with CNPC. NOC assured Verenex that the corporate sale would be quickly approved. But two weeks after Verenex announced the agreement with CNPC, the NOC's chairman, Shukri Ghanem, announced that the NOC might exercise its right of first refusal on the sale of Verenex -- without indicating when it might do so. So far, the NOC has not formally informed Verenex of its intention to acquire the company, but has not approved the deal signed between Verenex and the Chinese either, leaving Verenex in limbo.

¶5. (SBU) According to McFarland, the NOC's legal basis for halting the deal is questionable. The NOC's pre-emptive right applies to the sale of the company's Libyan assets, not to the entire company, he said. Verenex's strategy is to keep advocating the NOC to approve the agreement signed with CNPC.

If, on the other hand, the NOC chooses to proceed with its option to purchase Verenex, it could delay the sale further.

¶6. (SBU) Comment. Verenex's difficulties underscore the risks foreign companies in all sectors face when doing business in Libya, and with the GOL in particular, where GOL actions can be highly unpredictable and sometimes costly. McFarland agreed that there could be an anti-Chinese angle in the GOL move, but conceded that the chances were slim. End comment.

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